

**KEYSTONE
AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2015

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KEYSTONE AREA EDUCATION AGENCY 1

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Francis Peterson	President	2015
Tina Pech	Vice-President	2015
Walter Pregler	Member	2015
James Moeller	Member	2015
Craig Beytien	Member	2015
Sandra Gassman	Member	2017
Bill Withers	Member	2017
Merle Gaber	Member	2017
Janet Kreitzer	Member	2017
Agency		
Patrick Heiderscheit	Administrator	
Julie Tschirgi	Board Secretary	
Audie Baumgartner	Business Manager and Treasurer	Indefinite



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

To the Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As disclosed in Note 9 to the financial statements, Keystone Area Education Agency 1 adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Agency's Proportionate Share of the Net Pension Liability, the Schedule of Agency Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 33 through 38 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency 1's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2015 on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Keystone Area Education Agency 1's internal control over financial reporting and compliance.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 9, 2015

KEYSTONE AREA EDUCATION AGENCY

KEYSTONE AREA EDUCATION AGENCY 1

MANAGEMENT’S DISCUSSION AND ANALYSIS

Keystone Area Education Agency 1 provides this Management’s Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Agency’s financial statements which follow.

2015 FINANCIAL HIGHLIGHTS

General Fund revenues in 2015 (FY15) were \$23,248,161 while General Fund expenditures for FY15 were \$23,552,736. This resulted in a decrease in the Agency’s General Fund balance from \$2,194,179 in FY14 to \$1,850,965 in FY15, a 16% decrease from the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management’s Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency’s financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency’s finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency’s operations in more detail than the government-wide financial statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency’s budget for the year, the Agency’s proportionate share of the net position liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the non-major funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Agency's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference reported as net position. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net position and how it has changed. Net position is one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is an indicator of whether financial position is improving or deteriorating. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities consist of the following category:

- *Governmental activities:* The Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has two kinds of funds:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

- Fiduciary funds are funds through which the Agency administers and accounts for certain activity as a fiscal agent. The Agency is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net position at the end of fiscal year 2015 totaled approximately (\$6.1) million compared to approximately \$4.4 million at the end of fiscal year 2014. The analysis that follows focuses on the net position and changes in net position.

	Condensed Statement of Net Position		
	Total Governmental Activities	Percentage Change (%)	
	2014		
	(Not restated)	2015	2014-2015
Current and other assets	\$ 5,199,934	\$ 4,657,606	(10.4)
Capital assets	3,208,100	2,958,138	(7.8)
Total assets	8,408,034	7,615,744	(9.4)
Deferred outflows of resources	-	1,721,277	-
Long-term obligations	877,331	9,115,811	939.0
Other liabilities	3,142,300	2,926,775	(6.9)
Total liabilities	4,019,631	12,042,586	199.6
Deferred inflows of resources	-	3,428,975	-
Net position:			
Net investment in capital assets	3,208,100	2,958,138	(7.8)
Unrestricted	1,180,303	(9,092,678)	(870.4)
Total net position	\$ 4,388,403	\$ (6,134,540)	(239.8)

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The Agency's total net position decreased 239.8%, or approximately \$10,522,943, from fiscal year 2014. The decrease in unrestricted net position was primarily due to the implementation of GASB 68 and the restatement of the beginning balance for net pension liability of \$10,544,345.

The following analysis details the changes in net position resulting from the Agency's activities.

	Changes in Net Position		
	Total Governmental Activities	Percentage Change (%)	
2014			
(Not restated)	2015		2014-2015
Revenues:			
Program revenues:			
Charges for service	\$ 1,130,566	\$ 1,574,396	39.3
Operating grants and contributions	9,367,288	10,015,856	6.9
General revenues:			
Property taxes	6,203,106	6,237,514	0.6
State foundation aid	5,537,138	5,711,774	3.2
Unrestricted investment earnings	14,282	8,329	(41.7)
Total revenues	22,252,380	23,547,869	5.8
Program expenses:			
Instruction	245,584	259,632	5.7
Student support services	10,638,519	10,784,382	1.4
Instructional staff support services	6,623,503	7,187,178	8.5
General administration	3,111,985	2,932,638	(5.8)
Business administration	1,635,203	1,527,747	(6.6)
Plant operations and maintenance	805,630	706,219	(12.3)
Central and other support services	285	40,198	14,004.6
Community service operations	50,282	49,834	(0.9)
Facilities acquisition and construction	-	38,639	-
Total expenses	23,110,991	23,526,467	1.8
(Decrease) Increase in net position	(858,611)	21,402	(102.5)
Net position beginning of year, as restated	5,247,014	(6,155,942)	(217.3)
Net position end of year	\$ 4,388,403	\$ (6,134,540)	(239.8)

Operating grants and contributions from local, state, and federal sources account for 43% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 78% of the total expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL FUND ANALYSIS

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported a combined fund balance that decreased from \$2,194,179 to \$1,850,965.

Governmental Fund Highlights

FY '15 for Keystone Area Education Agency was highlighted by the following management strategies:

- maintenance of an appropriate ending balance in each of the three divisions (special education, educational services, and media)
- continuation of a conservative master staffing plan in an attempt to ensure appropriate balance among and between revenue, expenditures and member district needs.

Economic Factors and Next Year's Budget

FY '16 for Keystone Area Education Agency promises to be impacted by the following realities:

- loss of Fredericksburg to AEA 267 (two year transition via inter-agency contract; full impact of loss will not be realized until FY '17)
- diminished state resources (1.25% state supplemental aid disproportionate to enrollment drop)
- stable federal special education resources (two years removed from sequestration)
- stable AEA reduction of \$15 million (the special education division's portion of the \$15 million is ~\$1.2 million)
- escalation of duties for special education to support the state's effort to close the achievement gap for students with individualized education programs (IEPs)
- escalation of duties for instructional services to support the state's Multi-Tiered System of Supports (MTSS) for early literacy, implement the state's teacher leadership and compensation (TLC) program.

MANAGEMENT’S DISCUSSION AND ANALYSIS

BUDGETARY HIGHLIGHTS

The Agency’s Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency’s actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Agency had invested approximately \$2.96 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, media lending library and audio-visual equipment. This is a net decrease of approximately \$250,000 from last year. This decrease was primarily due to the excess of depreciation and dispositions over additions made during the year.

Keystone Area Education Agency had depreciation expense of \$436,220 in FY15 and total accumulated depreciation of approximately \$7.11 million on June 30, 2015. More detailed information about capital assets is available in Note 3 to the financial statements.

CONTACTING THE AGENCY’S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency’s citizens, taxpayers, customers, investors and creditors with a general overview of the Agency’s finances and to demonstrate the Agency’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Keystone Area Education Agency, 1400 2nd St N.W., Elkader, Iowa, 52043-9564.

BASIC FINANCIAL STATEMENTS

KEYSTONE AREA EDUCATION AGENCY 1**Exhibit A****STATEMENT OF NET POSITION****June 30, 2015**

	Total Governmental Activities
Assets	
Cash	\$ 3,546,380
Receivables:	
Accounts	179,392
Due from other governments	907,896
Inventories	22,534
Prepaid expenses	1,404
Capital assets, net of accumulated depreciation	2,958,138
Total assets	7,615,744
Deferred Outflows of Resources	
Pension related deferred outflows	1,721,277
Liabilities	
Payables:	
Accounts payable	329,778
Due to other governments	22,424
Salaries and benefits payable	2,399,487
Accrued liabilities	23,411
Deposits payable	31,541
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences	80,134
Early retirement	40,000
Portion due or payable after one year:	
Compensated absences	181,536
Early retirement	160,000
Net pension liability	8,084,306
Net OPEB liability	689,969
Total liabilities	12,042,586
Deferred Inflows of Resources	
Pension related deferred inflows	3,428,975
Net Position	
Net investment in capital assets	2,958,138
Unrestricted	(9,092,678)
Total net position	\$ (6,134,540)

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and
Functions/Programs:			Contributions
Governmental Activities:			
Instruction	\$ 259,632	\$ 6,691	\$ 261,457
Student support services	10,784,382	451,945	8,471,722
Instructional staff support services	7,187,178	529,246	1,173,546
General administration	2,932,638	54,860	11,368
Business administration	1,527,747	531,654	-
Plant operations and maintenance	706,219	-	-
Central and other support services	40,198	-	-
Community service operations	49,834	-	97,763
Facilities acquisition and construction	38,639	-	-
Total governmental activities	\$ 23,526,467	\$ 1,574,396	\$ 10,015,856

General Revenues:

Property tax levied for general purposes
State foundation aid
Unrestricted investment earnings

Total general revenues

Change in net position

Net position beginning of year, as restated

Net position end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities		Total	
\$	8,516	\$	8,516
	(1,860,715)		(1,860,715)
	(5,484,386)		(5,484,386)
	(2,866,410)		(2,866,410)
	(996,093)		(996,093)
	(706,219)		(706,219)
	(40,198)		(40,198)
	47,929		47,929
	(38,639)		(38,639)
	(11,936,215)		(11,936,215)
	6,237,514		6,237,514
	5,711,774		5,711,774
	8,329		8,329
	11,957,617		11,957,617
	21,402		21,402
	(6,155,942)		(6,155,942)
\$	(6,134,540)	\$	(6,134,540)

KEYSTONE AREA EDUCATION AGENCY 1

Exhibit C

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General	Nonmajor	Total
Assets			
Cash	\$ 3,491,278	\$ 55,102	\$ 3,546,380
Receivables:			
Accounts	179,392	-	179,392
Due from other governments	907,896	-	907,896
Inventories	22,534	-	22,534
Prepaid expenditures	1,404	-	1,404
Total assets	\$ 4,602,504	\$ 55,102	\$ 4,657,606
Liabilities and Fund Balances			
Liabilities:			
Payables:			
Accounts payable	\$ 324,649	\$ 5,129	\$ 329,778
Due to other governments	-	22,424	22,424
Salaries and benefits payable	2,371,938	27,549	2,399,487
Accrued liabilities	23,411	-	23,411
Deposits payable	31,541	-	31,541
Total liabilities	2,751,539	55,102	2,806,641
Fund balances:			
Nonspendable:			
Inventory	22,534	-	22,534
Prepaid expenditures	1,404	-	1,404
Restricted for:			
Media materials	306	-	306
Educator quality	126,033	-	126,033
TLC Administrator Support	9,408	-	9,408
Unassigned	1,691,280	-	1,691,280
Total fund balances	1,850,965	-	1,850,965
Total liabilities and fund balances	\$ 4,602,504	\$ 55,102	\$ 4,657,606

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2015**

Total governmental fund balances (page 13) \$ 1,850,965

*Amounts reported for governmental activities in the
Statement of Net Position are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$10,071,625 and the accumulated depreciation is \$7,113,487. 2,958,138

Pension related deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, are not due and payable in the current year and, therefore, are not reported in the governmental funds.

Deferred outflows of resources	\$ 1,721,277	
Deferred inflows of resources	<u>(3,428,975)</u>	(1,707,698)

Long-term liabilities, including compensated absences, other postemployment benefits and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds.

(9,235,945)

Net position of governmental activities (page 11) \$ (6,134,540)

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

	General	Nonmajor	Total
Revenues:			
Local sources	\$ 7,820,239	\$ -	\$ 7,820,239
State sources	6,992,782	299,708	7,292,490
Federal sources	8,435,140	-	8,435,140
Total revenues	23,248,161	299,708	23,547,869
Expenditures:			
Current:			
Instruction	6,691	261,457	268,148
Student support services	11,083,002	-	11,083,002
Instructional staff support services	7,162,924	-	7,162,924
General administration	2,998,303	27,999	3,026,302
Business administration	1,533,915	676	1,534,591
Plant operations and maintenance	716,674	9,576	726,250
Central and other support services	198	-	198
Community service operations	51,029	-	51,029
Facilities acquisition and construction	-	38,639	38,639
Total expenditures	23,552,736	338,347	23,891,083
(Deficiency) of revenues (under) expenditures	(304,575)	(38,639)	(343,214)
Other financing sources (uses):			
Transfers in	-	38,639	38,639
Transfers out	(38,639)	-	(38,639)
Total financing sources (uses)	(38,639)	38,639	-
Changes in fund balances	(343,214)	-	(343,214)
Fund balances, beginning of year	2,194,179	-	2,194,179
Fund balances, end of year	\$ 1,850,965	\$ -	\$ 1,850,965

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

Change in fund balances - total governmental funds (page 15) \$ (343,214)

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay expenditures in the current year as follows:

Expenditures for capital assets	\$ 209,768	
Depreciation expense	<u>(436,220)</u>	(226,452)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the loss is not recognized. (23,510)

The current year Agency employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. 1,276,637

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	(40,000)
Compensated absences	(7,197)
Pension expense	(524,296)
Other postemployment benefits	<u>(90,566)</u>

Change in net position of governmental activities (page 12) \$ 21,402

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1**Exhibit G****STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES****Agency Fund****June 30, 2015**

Assets	
Cash	<u>\$ 2,000</u>
Total assets	<u><u>\$ 2,000</u></u>
Liabilities	
Due to other governments	<u>\$ 2,000</u>
Total liabilities	<u><u>2,000</u></u>
Net position	<u><u>\$ -</u></u>

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 23 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide financial statements: The Statement of Net Position and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide financial statements (continued): The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund financial statements: Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Agency also reports the following fiduciary fund:

The Agency Fund is used to account for assets held by the Agency as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (continued):

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from, less-restrictive classifications – committed, assigned, and then unassigned fund balances.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity:

Cash: Cash includes amounts in demand deposits and money market funds.

Inventories: Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital assets: Capital assets, which include property, furniture and equipment, are reported in the governmental column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Building	\$ 50,000
Improvements other than buildings	5,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity (continued):

Capital assets (continued): Capital assets of the Agency are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Deferred Outflows of Resources: Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date, but before the end of the employer's reporting period.

Salaries and benefits payable: Payroll and related expenses for employees with annual contracts corresponding to the current fiscal year, which are payable in July and August, have been accrued as liabilities.

Compensated absences: Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2015. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term liabilities: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity (continued):

Deferred Inflows of Resources: Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Balances: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts.

Unassigned Amounts not included in preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents and Pooled Investments

The Agency's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,400,659	-	-	5,400,659
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	1,019,988	39,527	40,251	1,019,264
Library books and films	3,206,327	170,241	161,239	3,215,329
Total capital assets being depreciated	9,719,974	209,768	201,490	9,728,252
Less accumulated depreciation for:				
Buildings	3,618,710	165,359	-	3,784,069
Improvements other than buildings	79,515	4,185	-	83,700
Furniture and equipment	656,637	90,216	32,865	713,988
Library books and films	2,500,385	176,460	145,115	2,531,730
Total accumulated depreciation	6,855,247	436,220	177,980	7,113,487
Total capital asset being depreciated, net	2,864,727	(226,452)	23,510	2,614,765
Governmental activities capital assets, net	\$ 3,208,100	\$ (226,452)	\$ 23,510	\$ 2,958,138

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets (Continued)

Depreciation expense was charged to the following functions:

Governmental activities:	
Student support services	\$ 3,654
Instructional staff support services	183,465
Business administration	53,860
Plant operations and maintenance	195,241
Total depreciation expense - governmental activities	\$ 436,220

Note 4. Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Early retirement obligation	\$ 160,000	\$ 220,000	\$ 180,000	\$ 200,000	\$ 40,000
Compensated absences	254,473	111,742	104,545	261,670	80,134
Net pension liability	11,735,495	-	3,651,189	8,084,306	-
Net OPEB liability	599,403	122,512	31,946	689,969	-
	<u>\$12,749,371</u>	<u>\$ 454,254</u>	<u>\$ 3,967,680</u>	<u>\$ 9,235,945</u>	<u>\$ 120,134</u>

Early retirement obligation: The Agency offered a voluntary early retirement plan to their employees during the year ended June 30, 2015. Eligible employees must have completed at least eight years of full-time service to the Agency (going forward, fifteen years if start date after July 1, 2012) and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Directors. Early retirement benefits equal \$20,000 per retiree and are distributed over five years at \$4,000 per year. The Agency retains the right to expedite payment of the benefit if its fund balances allow. The Agency shall pay the benefit annually in January, May or September with the month of payment being the one that most closely follows the month of the resigning/retiring employee's last day of employment with the Agency. At June 30, 2015, the Agency has \$200,000 due as an obligation for early retirement liability for 10 employees who elected early retirement during the year. Actual early retirement expenditures for the year ended June 30, 2015 totaled \$180,000.

NOTES TO FINANCIAL STATEMENTS

Note 5. Operating Leases

The Agency leased various facilities within the area to house the different divisions of the Agency and copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from June 2015 through June 2020.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2015.

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 49,355
2017	30,828
2018	12,300
2019	6,700
2020	3,900
	<u>\$ 103,083</u>

Total rental expenditures for the year ended June 30, 2015 for all operating leases, except those with terms of a month or less that were not renewed, was \$83,967.

Note 6. Pension Plan

Plan Description: IPERS membership is mandatory for employees of the Agency, except for those covered by another retirement system. Employees of the Agency are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits: A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 20, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plan (Continued)

Pension Benefits (continued): If a member retired before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits: A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions: Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Agency contributed 8.93 percent for a total rate of 14.88 percent.

The Agency's contributions to IPERS for the year ended June 30, 2015 were \$1,276,637.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2015, the Agency reports a liability of \$8,084,306 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Agency's proportion was 0.203845 percent, which was a decrease of 0.000546 percent from its proportion measured as of June 30, 2013.

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plan (Continued)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued): For the year ended June 30, 2015, the Agency recognized pension expense of \$524,296. At June 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 87,861	\$ -
Changes in assumptions	356,779	-
Net difference between projected and actual earnings on pension plan	-	3,083,122
Changes in proportion and differences between Agency	-	345,853
Agency contributions subsequent to the measurement date	1,276,637	-
	<u>\$ 1,721,277</u>	<u>\$ 3,428,975</u>

\$1,276,637 reported as deferred outflows of resources related to pensions resulting from the Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Total
2016	\$ (747,700)
2017	(747,699)
2018	(747,700)
2019	(747,699)
2020	6,463
	<u>\$ (2,984,335)</u>

There are no non-employer contributing entities at IPERS.

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plan (Continued)

Actuarial Assumptions: The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rate of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term Investment rate of return (effective June 30, 2096)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
	100 %	

Discount Rate: The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plan (Continued)

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1 % Decrease (6.5 %)	Discount Rate (7.5 %)	1 % Increase (8.5 %)
Agency's proportionate share of the net pension liability	\$ 15,275,069	\$ 8,084,306	\$ 2,014,557

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org

Payables to the Pension Plan: At June 30, 2015, the Agency reported payables to the defined benefit pension plan of \$107,187 for legally required employer contributions and \$71,418 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description: The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for employees, retirees and their spouses. There are 205 active and 26 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy: The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation: The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 160,363
Interest on net OPEB obligation	14,985
Other adjustments to ARC	(52,836)
Annual OPEB cost	<u>122,512</u>
Contributions made	<u>(31,946)</u>
Increase in net OPEB obligation	90,566
Net OPEB obligation beginning of year	<u>599,403</u>
Net OPEB obligation end of year	<u><u>\$ 689,969</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

For the year ended June 30, 2015, the Agency contributed \$31,946 to the medical plan. Plan members eligible for benefits contributed \$454,218 to the plan.

Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2015 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 122,512	26.08%	\$ 689,969
June 30, 2014	137,908	18.30	599,403
June 30, 2013	164,301	17.67	486,731
June 30, 2012	124,362	27.36	351,459
June 30, 2011	221,915	23.11	261,127
June 30, 2010	11,028	0.00	90,497

Funded Status and Funding Progress: As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$805 thousand, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$805 thousand. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$14,176,000, and the ratio of the UAAL to covered payroll was 5.68%. As of June 30, 2015, there were no trust fund assets.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Agency's funding policy. The projected annual medical trend rate and ultimate medical trend rate is 6%. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Note 8. Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS

Note 9. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources that arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after measurement date, as follows:

	<u>Governmental Activities</u>
Net position June 30, 2014, as previously reported	\$ 4,388,403
Net pension liability at June 30, 2014	(11,735,495)
Deferred outflows of resources related to prior year contributions made after the June 30, 2013 measurement date	<u>1,191,150</u>
Net position July 1, 2014, as restated	<u><u>\$ (6,155,942)</u></u>

KEYSTONE AREA EDUCATION AGENCY 1

REQUIRED SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -- BUDGET AND ACTUAL ALL GOVERNMENTAL FUNDS Year Ended June 30, 2015

Required Supplementary Information

	Total Governmental Fund Types		Budget		Final to Actual Variance - Favorable (Unfavorable)
	Actual	Original	Final		
Revenues:					
Local sources	\$ 7,820,239	\$ 7,532,582	\$ 7,827,367	\$	(7,128)
State sources	7,292,490	8,263,374	7,242,528		49,962
Federal sources	8,435,140	7,947,726	8,478,237		(43,097)
Total revenues	23,547,869	23,743,682	23,548,132		(263)
Expenditures/Expenses:					
Current:					
Instruction	268,148	268,437	286,169		18,021
Student support services	11,083,002	10,982,300	11,157,582		74,580
Instructional staff support services	7,162,924	6,998,429	7,627,340		464,416
General administration	3,026,302	3,154,632	2,899,799		(126,503)
Business administration	1,534,591	1,630,489	1,624,930		90,339
Plant operations and maintenance	726,250	833,225	842,368		116,118
Central and other support services	198	500	500		302
Community service operations	51,029	57,523	58,510		7,481
Facilities acquisition and construction	38,639	-	38,639		-
Total expenditures/ expenses	23,891,083	23,925,535	24,535,837		644,754
Excess (deficiency) of revenues over (under) expenditures/ expenses	(343,214)	(181,853)	(987,705)		644,491
Balance, beginning of year	2,194,179	1,851,253	2,194,179		-
Balance, end of year	\$ 1,850,965	\$ 1,669,400	\$ 1,206,474	\$	644,491

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1
June 30, 2015

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles for all funds except Agency Funds. Although the budget document presents function expenditures/expenses by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2015, the Agency's expenditures/expenses did not exceed the approved budget.

KEYSTONE AREA EDUCATION AGENCY 1

SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Iowa Public Employees' Retirement System

Last Fiscal Year*

(In Thousands)

Required Supplementary Information

	<u>2015</u>
Agency's proportion of the net pension liability (asset)	0.203845%
Agency's proportionate share of the net pension liability (asset)	\$ 8,084
Agency's covered-employee payroll	\$ 14,296
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.55%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying Independent Auditor's Report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the Agency will present information for those years for which information is available.

KEYSTONE AREA EDUCATION AGENCY 1**SCHEDULE OF AGENCY CONTRIBUTIONS****Iowa Public Employees' Retirement System****Last Nine Fiscal Years****(In Thousands)****Required Supplementary Information**

	2015	2014	2013	2012
Statutorily required contribution	\$ 1,276	\$ 1,191	\$ 1,162	\$ 1,087
Contributions in relation to the statutorily required contribution	(1,276)	(1,191)	(1,162)	(1,087)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Agency's covered-employee payroll	\$ 14,296	\$ 13,339	\$ 13,405	\$ 13,476
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

See accompanying Independent Auditor's Report.

2011	2010	2009	2008	2007	2006
\$ 932	\$ 922	\$ 867	\$ 771	\$ 666	\$ 667
(932)	(922)	(867)	(771)	(666)	(667)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 13,413	\$ 13,858	\$ 13,659	\$ 12,748	\$ 11,575	\$ 11,599
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

KEYSTONE AREA EDUCATION AGENCY 1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

In 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual contribution rate.

In 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Funding Progress for the Retiree Health Plan (In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	7/1/2008	\$ -	\$ 1,023	\$ 1,023	0.00%	\$ 13,459	7.60%
2010	7/1/2008	-	1,023	1,023	0.00	14,047	7.28
2011	7/1/2010	-	1,039	1,039	0.00	13,533	7.68
2012	7/1/2010	-	1,039	1,039	0.00	13,635	7.62
2013	7/1/2012	-	749	749	0.00	13,198	5.68
2014	7/1/2012	-	749	749	0.00	13,222	5.67
2015	7/1/2014	-	805	805	0.00	14,176	5.68

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost, net OPEB obligation, funded status and funding progress.

See accompanying Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

		<div> <div>Special Revenue</div> <div>Juvenile Home</div> <div>Capital Projects</div> <div>Total</div> </div>		
Assets				
Current Assets:				
Cash		\$ 55,102	\$ -	\$ 55,102
Total assets		\$ 55,102	\$ -	\$ 55,102
Liabilities and Fund Balances				
Liabilities:				
Accounts payable		\$ 5,129	\$ -	\$ 5,129
Due to other governments		22,424	-	22,424
Salaries and benefits payable		27,549	-	27,549
Total liabilities		55,102	-	55,102
Fund balances:				
Restricted for specific special purposes		-	-	-
Total liabilities and fund balances		\$ 55,102	\$ -	\$ 55,102

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 2

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2015**

	Special Revenue		
	Juvenile Home	Capital Projects	Total
Revenues:			
State sources	\$ 299,708	\$ -	\$ 299,708
Total revenues	299,708	-	299,708
Expenditures:			
Current:			
Instruction	261,457	-	261,457
General administration	27,999	-	27,999
Business administration	676	-	676
Plant operations and maintenance	9,576	-	9,576
Facilities acquisition and construction	-	38,639	38,639
Total expenditures	299,708	38,639	338,347
Excess (Deficiency) of revenues over (under) expenditures	-	(38,639)	(38,639)
Other financing sources:			
Transfers in	-	38,639	38,639
	-	38,639	38,639
Change in fund balance	-	-	-
Fund balances beginning of year	-	-	-
Fund balances end of year	\$ -	\$ -	\$ -

See accompanying Independent Auditor's Report.

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES -
Agency Fund
Year Ended June 30, 2015

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ -	\$ 2,000	\$ -	\$ 2,000
Total assets	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ 2,000</u>
Liabilities				
Due to other governments	\$ -	\$ 2,000	\$ -	\$ 2,000
Total liabilities	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ 2,000</u>

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1**SCHEDULE OF REVENUES BY SOURCE
AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
For the Last Ten Years**

	2015	2014	2013	2012
Revenues:				
Local	\$ 7,820,239	\$ 7,347,954	\$ 7,469,486	\$ 7,680,170
State	7,292,490	7,035,463	6,601,924	6,471,382
Federal	8,435,140	7,868,963	8,389,797	9,473,925
Total	\$ 23,547,869	\$ 22,252,380	\$ 22,461,207	\$ 23,625,477
Expenditures:				
Instruction	\$ 268,148	\$ 244,739	\$ 234,954	\$ 280,407
Student support services	11,083,002	10,621,094	11,121,209	10,532,497
Instructional staff support services	7,162,924	6,601,076	6,453,207	6,613,163
General administration	3,026,302	3,033,627	3,139,356	3,143,055
Business administration	1,534,591	1,478,787	1,400,980	1,280,809
Plant operations and maintenance	726,250	846,834	815,945	659,630
Central and other support services	198	285	117	232
Community service operations	51,029	50,108	45,898	45,534
Facilities acquisition and construction	38,639	-	-	-
Debt service	-	-	2,233,813	460,672
Total expenditures	\$ 23,891,083	\$ 22,876,550	\$ 25,445,479	\$ 23,015,999

See accompanying Independent Auditor's Report.

Schedule 4

Modified Accrual Basis

Years Ended June 30,

2011	2010	2009	2008	2007	2006
\$ 7,505,889	\$ 7,418,063	\$ 7,176,257	\$ 7,027,608	\$ 6,699,556	\$ 6,552,694
7,844,686	6,889,970	7,639,313	6,864,814	5,721,745	5,175,879
9,186,771	14,253,568	9,334,486	8,366,891	8,719,971	8,870,515
\$ 24,537,346	\$ 28,561,601	\$ 24,150,056	\$ 22,259,313	\$ 21,141,272	\$ 20,599,088
\$ 254,436	\$ 166,251	\$ 254,911	\$ 638,042	\$ 377,243	\$ 294,653
10,264,301	14,506,428	11,588,519	9,783,157	9,337,230	9,438,835
6,704,588	7,067,820	6,575,140	5,934,985	5,720,022	5,699,278
3,007,220	2,999,018	2,969,745	2,985,714	2,872,640	3,005,570
1,447,176	1,574,380	1,286,058	1,383,903	1,294,592	1,192,424
663,046	745,214	757,033	726,456	725,009	671,528
847	586	199	625	576	2,421
41,880	94,240	58,770	83,388	87,292	85,828
-	-	-	-	-	127,727
460,733	444,654	432,385	413,950	462,950	453,513
\$ 22,844,227	\$ 27,598,591	\$ 23,922,760	\$ 21,950,220	\$ 20,877,554	\$ 20,971,777

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States:	84.027		
IDEA Part B		141501	\$ 5,939,718
IDEA Part B - LEA Flow-Through		5KB2-01	1,508,280
Parent-Educator Connection		4K74-01	97,763
Iowa Core Significant Disabilities Team		050814	1,254
Iowa Core Significant Disabilities Team		017215	4,344
Iowa Core Significant Disabilities Team		046515	3,762
SLP Leadership Group		004615	3,319
SLP Leadership Group		048515	3,200
			7,561,640
Special Education - Preschool Grants:	84.173		
IDEA Part B Section 619		14619-01	279,651
Teach Town Expansion Project		016214	33,706
			313,357
			7,874,997
Special Education - Grants for Infants and Families:			
IDEA - Part C	84.181	4KC3-01	213,091
Carl D. Perkins Career and Technical Education:			
Vocational Education - Basic Grants to States	84.048A	G50101	189,312
Department of Education Grants:			
Title III - English Language Acquisition	84.365	15ELA-01	40,269
Iowa Safe & Supportive Schools, Learning Supports	84.184	019715	37,500
			77,769
Passed-through a University/College:			
Investing in Innovation (i3)	84.396A	Project 4759	15,450

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 5
(Continued)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect (Continued):			
U. S. Department of Human Services, Medicaid:			
Medical Assistance Program:			
Medicaid Direct Service Reimbursement:	93.778		
Medicaid Direct Services, Part B			\$ 42,003
Medicaid Direct Services, Part C			22,518
			<u>64,521</u>
			<u>\$ 8,435,140</u>

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Keystone Area Education Agency 1
Elkader, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Keystone Area Education Agency 1's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Keystone Area Education Agency 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Keystone Area Education Agency 1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keystone Area Education Agency 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about Keystone Area Education Agency 1's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Keystone Area Education Agency 1. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 9, 2015

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Report on Compliance for Each Major Federal Program

We have audited Keystone Area Education Agency 1's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. Keystone Area Education Agency 1's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Keystone Area Education Agency 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keystone Area Education Agency 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Keystone Area Education Agency 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Keystone Area Education Agency 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The management of Keystone Area Education Agency 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Keystone Area Education Agency 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Keystone Area Education Agency 1's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 9, 2015

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - Special Education Cluster (IDEA):
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.173 – Special Education – Preschool Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

No matters were noted.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2015

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-15 Certified Budget: Expenditures during the year ended June 30, 2015 did not exceed the amount budgeted.
- IV-B-15 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-15 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-15 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-15 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-15 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-15 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted.
- IV-H-15 Certified Annual Report: The Certified Annual Report (CAR) was certified timely to the Iowa Department of Education.
- IV-I-15 Categorical Funding: No instances were noted of categorical funding used to supplant rather than supplement other funds.